

**INDRAGANDHI NATIONAL OPEN UNIVERSITY  
SCHOOL OF GRADUATE STUDIES**

**Impacts of Microfinance Institution on the Living Condition of Rural Women: A case study on the Oromia Credit and Save Share Company in Shirka Woreda, Oromia Region.**

**A Thesis Submitted to the School of Graduate Studies of Indra Gandhi National Open University in Partial Fulfilment of the Requirements for the Degree of Master of Arts (MA) in Rural Development (MARD).**

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## **Declaration**

I hereby declare that the Dissertation entitled “Impacts of Microfinance Institution on the Living condition of Rural Women”: A case study on the Oromia Credit and Save Share Company in Shirka Woreda, Oromia Region. Submitted by me for the partial fulfillment of the Requirement for the Degree of Master of Arts in Rural Development (MARD) to Indri Gandhi National Open University (IGNOU) New Delhi is my own original work and has not been submitted to IGNOU or other Institution for the Fulfilment of the requirement of any course of study. I also declare that no chapter of this manuscript in whole or in part is lifted and incorporated in this report from earlier works.

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## **Certificate**

This is to certify that Mesele Mekuria Bekele student of M.A from Indra Gandhi National Open University (IGNOU) New Delhi was working under my supervision and guidance for his thesis work Entitled “Impacts of Microfinance Institution on the Living condition of Rural women: A case study on the Oromia Credit and Save Share Company in Shirka Woreda, Oromia Region which he is submitting is his genuine and original work.

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## **Abbreviations**

CSA- Central Statistical Authority

GDP -Gross Domestic Product

MEDaC-Ministry of Economic Development and Cooperation

SAP-Structural Adjustment Program

SPSS-Software Program Social Science

MOFED-Ministry of Finance and Economic Development

NBE-National Bank of Ethiopia

MFI-Micro Finance Institutions

NGO- Non Governmental Organizations

OCSSCO-Oromia Credit Saving Share Company

AEMFI-Association of Ethiopian Micro Finance Institution

DBE-Development Bank of Ethiopia

CBE-Commercial Bank of Ethiopia

DECSI-Dedebit Credit and Saving Institution

ACSI-Amhara Credit Saving Institution

AIMS-Assessment Impact of Microfinancing Services

USAID-United States Agency for International Development

SFPI-Specialized Financial and professional Institution

ADLI-Agriculture Led Industry

## **ABSTRACT**

The major causes of low economic growth and high incidence of poverty, in Ethiopia, includes lack of income, assets, employment opportunities, education, health and etc. To reverse the economic decline and poverty situation in the country, starting from 1993 the Ethiopian government has taken policy measure such as structural adjustment program (SAP), agricultural development led to industrialization (ADLI), and poverty reduction strategy paper (PRSP), and currently the transformation plan, increasing the poor access to micro finance services are accepted as one of the tool to attack poverty. OCSSCO is one of the MFI that was established in August 1997 to achieve these objectives in the region. This thesis attempt to see the impact of this institution whether it improves the living standard of its clients (women) or not using some variables and the challenges it practices in the Shirka Woreda. Primary data were collected through structured and semi-structured questionnaire from women clients. Secondary data were collected from different published books, unpublished yearly or quarterly reports journal of articles, CSA reports and other relevant official reports. The assessment takes into account the general characteristics and impacts. The impact assessment was based on the variables such as income, nutritional status, access to education, medical facilities, saving and employment opportunities. The finding of the study indicated that the OCSSCO'S micro financing scheme has had a positive impact on improving the living standards of its clients in the study area using the above indicated variables. Absence of office and other facilities, high interest rate, low amount of loan, and problem in the knowhow of the poor who operates their business in the environments with high business risk in nature has been found in the study. Therefore, OCSSCO should fulfill different facilities and develop the capacity of its staff. In addition to this, OCSSCO must make an effort to strengthen its financial capacity in order to increase the amount of loan it disburses for each client.

# **Chapter I Introduction**

## **1.1 Background of the Study**

Poverty and food insecurity are the main challenges and fundamental issues of economic and social development in Ethiopia (Gebrehiwot, 2002). It is estimated that in Ethiopia 44 percent of the population is living below absolute poverty line (Wolday, 2003). Although poverty has continued to be at the forefront of Ethiopian concerns, recent history shows great improvements. The incidence of poverty has declined from 45.5% in 1995/6 to 38.7% in 2004/5 and finally to 29.6% in 2010/11 (Ministry of Finance and Economic Development, 2012).

Like other Sub-Saharan Africa countries, the socio-economic condition of Ethiopia is characterized by low growth rate of income, saving, investment, inadequate social services, high population growth and high unemployment rate. High population growth also causes the natural resource degradation of the country.

The country's economy is unable to create employment opportunities for the fast growing labor force (Tsehay and Mengistu, 2002). Poverty in Ethiopia is also caused by various factors such as, high unemployment, low level of literacy, environmental degradation, drought, limited access to resources, health and education services and others (like non availability of financial resource) (Wolday, 2003).

Women mostly suffer from this poverty in many developing countries. Ethiopia, being one of the developing countries, poverty is a burning issue in the country. Even though women contribute much to the economy in particular and development in general there are many gender challenges exist in the rural areas. According to the World Bank (2001) Gender Restrictions & Mobility on women's in many cultures, less access to market than men. Most culture views women as bearing the main responsibility for house hold subsistence, women's concentration in a narrow range of activities with insufficient resources for investment-making them more susceptible to risks.

Women have low level of education than men and have few formal properties of rights. Moreover, a rural woman has no access to credit both in the formal and non-formal financial sources. The male has given the opportunity to take loan sometimes without the consent of women.

Provision of financial services is one of the important economic inputs in the effort to reduce poverty and empower such economically marginalized segments of the society, women. These marginalized poor women have limited access to financial services from the formal financial institutions especially in developing countries. Because formal financial system has inadequate geographical outreach, lack of adequate management system, lack of skilled manpower, high risk perception and inadequate collateral, such poor people found it difficult to obtain adequate amount of credit and were charged high rates of interest by monopolistic moneylenders of the area.

In Ethiopia, several microfinance institutions have been established & have been operating towards resolving the credit access problems of the poor particularly to those participates in the petty business. Nearly, the government design to provide credit through establishing microcredit institution in different region of the country, OCSSC is one in Oromia Regional state. Women who were taking loan from this institution are increasing in number but how far they gained from the program is still in doubt. This study its center of attention is primarily aimed to identify the impact of the microfinance institution, OCSSC, serving the rural women associated groups those who qualify for microcredit assistance from government credit institutions, OCSSC, excluding the impact of non-governmental organizations & other credit sources like money lenders, ikub, idir, etc at specific location, shirka Woreda, where such impact assessment was not conducted before.

Some professionals undertake research on the impacts of rural microfinance Institutions on the rural women in Ethiopia at national, regional and local levels. The findings indicated that microfinance has positive and some negative impacts. This issue has to be more clarified in all regions of the country to come up with a more precise and appropriate solutions to the problems of rural women and improve their living condition and empowering them. That is why this research was designed to undertake in Oromia Regional state where little studies undertaken on the field of rural microfinance and its impact on the living condition of rural women as compared to the available Gender challenges, diversity and social and cultural

barriers on women more prevailed widely and still exist in it. The study was conducted through assessing the actual information from the sample women users of the microcredit loan provided by Oromia Credit and Save Share Company through designing interview and group discussion .Moreover through discussion with the officials of the OCSSC of Shirka Woreda.

## **1.2 Statement of the Problem**

Most people in the rural Ethiopia depend on agriculture as a source of livelihood. The existing agriculture is rain fed agriculture, backward, due to poor management of their natural resources degradation like soil erosion, deforestation prevails in the area. Moreover small holdings, infertile land due to high erosion and other natural calamities coupled with the high price of agricultural inputs such as fertilizer, improved seeds, and chemicals devastate the problem of poverty in the area.

The rural poor were neglected for long time in Ethiopia to the access of credit due to lack of financial institutions in remote areas. The poor lack access to the commercial banks due to poverty, lack of education, living in remote & lack of collateral. According to several studies, in the absence of different facilities including credit in rural area, some rural poor migrate to the near towns in search of jobs and others move to the different rural parts of the country in search of cultivable lands.

Rural poor women are more vulnerable among them in the rural Ethiopia. This is because the husbands of majority are not responsible for many expenses in the household & the load remains on the shoulder of the women. More over women are marginalized and discriminated against resource allocation; women are also excluded from decision making ownership of some resources in the rural areas.

In most anthropological literatures women are mostly engage in productive activities such as trading. Income generated through this activities are used immediately on house hold needs mean while, an increase in women's income often leads to improved living condition of their children and house hold members. Women Through engaging in non- farm activities, trading support & can improve the living condition of their family.

Currently in Ethiopia various agencies themselves has got a challenge to overcome the problem of lack of rural microcredit. Government institutions such as credit associations have taken it up on in their non-farm activities. Support is given to the rural poor in general and rural poor women in particular in the form of loan on farming and non- farming activities by concerned credit institutions.

A number of researches have been undertaken on the rural financing and its impact on the rural women in different regional states, for example, in Amhara regional states, Dire Dawa and SNNP. But in Oromia Regional state even if it is wide and potential region and the Oromia credit and save Share Company widely intervene in the region, its impact on the rural poor particularly on the rural poor women is not much studied. Most impact assessment studies conducted were on the physical achievement of the intended objective, mostly based on loan dispersed and repayment collected. So the researcher had tried to find and /or assessed the overall impacts of the provided credit by the Oromia credit and save Share Company on the improvement of the living condition of the rural women and their empowerment in a specific locality selected, Shirka Woreda.

### **1.3 Objective of the Study**

**The general objective of the study** is to find out and/or assess the overall impacts of the credit institution, Oromia Credit and Save Share Company (OCCSCO) on the living condition of the rural women.

**The specific objectives of the study includes:-**

- ♣ To examine the characteristics of the rural women and the type of activities they are engaged in
- ♣ To examine the type of support rural women receive from microcredit institution Oromia Credit and Save Share Company ( OCSSC)
- ♣ To determine accessibility (in time, quantity , etc) of micro credit institution to the rural women
- ♣ To assess the impacts of microcredit on the living condition of the rural women
- ♣ To assess the impact of rural microfinance on the empowerment of the rural women

### **1.4 Significance of the Study**

This study is mainly concise on the assessment of the impact of the credit institution on the rural women particularly the rural women of shirka Woreda. After this study planners or professionals can use the results of the study for development planning, for developing programs & strategies in the empowerment of rural women & poverty reduction. Moreover this study helps as input for OCSSCO to improve their services using the facts from the study.

### **1.5 Scope and Limitation of the Study**

The study is confined to specific area, Shirka Woreda, where no study has been undertaken before and concentrated on the impacts of microcredit provided by OCSSC to the women those who participate in the program in the Woreda in limited areas. The main limitation of this study is the non-inclusive of the whole women participants in the OCSSC in the Woreda. This is due to lack of finance and human labor.

### **1.6 Research Questions**

In undertaking this research the following research questions are raised

- What are the characteristics of the women in the area
- How far and in what ways does the service of the rural microfinance extended to reach the rural poor women
- Are the service delivered by the rural microfinance institutions based on the needs of the rural women
- Is the finance available in required time and quantity for the rural women
- What are the factors /constraints that influence the functioning of (loan delivery, repayment collection) rural microfinance institutions, OCSSCO?
- What are the main impact (achievement & failures) conceived by the rural women due to their participation in the OCSSCO.



## **1.7 Hypothesis**

Participation in microfinance programs enables the women to enter in to the income generating activities which lead to improve their income, food consumption, access to health and education. In addition, with the microfinance service, the women can save and build their assets. This hypothesis is originated from the fact that surplus production from income generating activities enables the clients to feed their households. The hypotheses also refer to that the intervention of microfinance increase income and thereby help the women to send their children to school and get access to medical facilities.

The clients become more financially self sufficient and economically independent and thus, increased self esteem and self confidence. This leads to improved leverage in decision making and increase bargaining power.

## **Chapter II Review of Literature**

### **2.1 Concept of Microfinance and Microfinance Institutions**

The word Micro finance is being used very often in development vocabulary today. It means small credit provided to the poor households that do not have access to services offered by banks. The definition of microfinance institutions proposed by some authors and organizations are seemingly different from one another. However the essence of the definition is usually the same in which microfinance refer to the provision of financial services primarily savings and credit to the poor and low income households that don't have access to commercial banks (Arsyad, 2005). Leger wood (1999) defines it as the provision of financial services (generally saving and credit) to low income clients. Robinson (2001) defines it as small scale financial services primarily credit and saving provided to people who farm or fish or herd who operate small enterprises or micro enterprises where goods are produced, recycled, repaired or sold; who provide services; who work for wage and commission; who gain income from renting out small amount of land, vehicles, draft animals, or machinery tools; and other individual and groups at the local level of developing countries both rural and urban area.

But the concept goes beyond the small credit to the poor. Christen (1997) define microfinance as the means of providing a variety of financial service to the poor based on the market driven and commercial approaches. This definition encompasses provision of other financial services like savings, money transfers, payments, remittance and insurance among the others. However, many microfinance practice today still focus on microcredit providing the poor with small credit with the hope of improving their labor productivity & there by lead to increment in household incomes. But demand for microfinance services usually Comes from micro entrepreneurs, people who survive by generating income for themselves in very small business activities. But in Ethiopia some MFIs today started providing savings, remittance, money transfer, loan and advisory services.

Providing micro financial services to poor clients requires innovative operating methods that enable the offering institution to manage risks and reduce transaction costs. According to the Occasional Paper No. 25 19 Poor households do not usually have physical assets to offer as collateral for loans, so microfinance providers have developed substitutes. The most common form of substitute collateral has been the formation of groups of borrowers and the establishment of joint liability procedures, where loan group members effectively guarantee one another's loans. To reduce transaction costs, microfinance providers primarily deal with these loan groups rather than with individual clients and they outsource various administration tasks to the groups.

Since the early 1990s, a major emphasis within the micro financial sector has been on institutional development, including building the quality and capacity of the governance and management of MFIs. This institutional development is necessary for a number of reasons. First, if MFIs accept client deposits, they are generally required to meet the prudential and regulatory requirements as defined in local banking laws. Essentially, they are required to become licensed banks. Second, institutional maturity is needed to enable growth in client outreach. Growth in the client base allows the MFI to reap advantages of scale, thereby achieving a greater degree of financial sustainability. Financial sustainability for MFI means that it is generating enough revenue from interest charges and fees to cover all direct and indirect costs, including operating expenses, provision for loan losses, and adjusted cost of capital. Third, institutional maturity is necessary to attract capital investment, whether concessionary or commercial, from external sources. The overriding mission of MFI is to provide financial services to poor households on a financially sustainable basis. While most MFIs have a pro-poor, development-oriented emphasis, they are more correctly understood as banks rather than as charitable development organizations. Similarly different financial Institutions were established through proclamation in Ethiopia.

## **2.2 Rural Finance**

According to the World Bank Rural finance is the range of financial service available and providing financial service for people living in the rural areas not only for Agricultural finance but also for non agricultural development. And rural financing encountered challenges in developing economy due to the lack of market development, seasonal and local agriculture, local demand for raw material, economic risks like climate changes, price, market fluctuation, and lack of information and transaction costs for service providers, rural communities may face different types of social opportunities and risks, property rights, etc. By passing this challenges rural poor having access to rural financial services is likely to have many significant benefits in that it helps in efficiency and economic growth, poverty reduction, gender equality and empowerment.

## **2.3 Microfinance and Poverty**

According to the review of J. Jarrett, poverty is condition of having in sufficient resources or income. In its most extreme form, poverty is lack of basic human needs, such as adequate and nutritious foods, clothing, housing, clean water and health service. Extreme poverty in developing nations, as defined by international organizations, means having a household income of less than US \$ 1 per day.

According to World Bank Poverty is hunger. Poverty is lack of shelter. Poverty is being sick and not being able to see a doctor. Poverty is not being able to go to school and not knowing how to read. Poverty is not having a job, is fear for the future, living one day at a time. Poverty is losing a child to illness brought about by unclean water. Poverty is powerlessness, lack of representation and freedom. Poverty has many causes some of the basic are overpopulation, unequal distribution of resources in the world economy, inability to meet high standards of living and costs of living, inadequate education and demographic trends and welfare incentives. Sahara desertification, political instability and wars (in a number of African countries during the late 20<sup>th</sup> .

Moreover, several studies noted different causes for poverty in developing country. Some argued that the cause of poverty is in developing economies among other things is that the poor does not have access to credit for the purpose of working capital as well as investment for its small business( Jean-Luc 2000)

The governments of most developing countries provide limited assistance to prevent some poverty. But rather a variety of organizations support antipoverty programs in developing countries. These organizations include international government organizations such as UN, aid agencies run by developed countries like USAID, NGO (mostly non- profit organizations) and private development Banks like Grameen Banks in Bangladesh.

Microfinance has been considered as one of poverty reduction strategies and intervention in developing economies in the world. A case study of Grameen Bank in Bangladesh indicates that credit is a cost effective weapon to fight poverty and it serves as catalyst in the overall development of the socioeconomic conditions of the poor who have been kept outside the banking orbit on the ground that they are poor and hence not bankable. Professor Muhammad Yunus, the founder of the Grameen Bank and its managing director , reasoned that if financial resources can be made available to the poor people on terms and conditions that are appropriate and reasonable these millions of small people with their million of small pursuits can add up to create the biggest development wonder.

The Grameen Bank, before, 1995 it had spread to most of the poor people of Bangladesh and was recognized worldwide in a short period of time as strategy for poverty alleviation. Two significant innovations are clearly observable in this success story of rural development. In the first place the absence of collateral in credit transaction to the poor, here peer group pressure social capital played a significant role in replacing collateral. In the second place even without collateral it has shown highest repayment for various loans which is more than any Banking system.

## **2.4 Poverty in Ethiopia**

According to (IFAD, 2008) Ethiopia is one of the World's poorest countries. Out of a population of around 80 million people, 35 million people are living in abject poverty, that means about 44 per cent of the population lives under the poverty line, more than 12 million people are chronically or at least periodically food insecure. Most of them live in rural areas with agriculture as their main occupation. With 80% of Ethiopians dependent on agriculture as their main livelihood, severe arid conditions due to persistent lack of rainfall coupled with civil disputes have worsened Ethiopian poverty.

Over the past two decades, the Government of the Federal Democratic Republic of Ethiopia has carried out far-reaching institutional and policy reforms to transform itself from a centrally planned, Marxist regime to the facilitator of a stable market economy. These reforms have underpinned efforts to reduce poverty and increase spending on agriculture, education, health, transport and communication.

Since 2007, Ethiopia has achieved strong economic growth, making it one of the highest performing economies in sub-Saharan Africa. Yet it remains one of the world's poorest countries. Ethiopia ranks 174th out of 187 countries on the United Nations Development Program's human development index, and average per capita income is less than half the current sub-Saharan average.

Ethiopia has enormous potential for agricultural development. At present only about 25 per cent of its arable land is cultivated, and agriculture is dominated by subsistence rain fed farming, using few inputs and characterized by low productivity. The vast majority of farmers are smallholders. About 12.7 million smallholders produce 95 per cent of agricultural GDP. These farmers are extremely vulnerable to external shocks such as volatile global markets. Small holder farmers form the largest group of poor people in Ethiopia. More than half cultivate plots of 1 hectare or less and struggle to produce enough food to feed their households. A large number of poor households face a prolonged hunger season during the pre-harvest period.

Herders, like farmers, are vulnerable to increasingly frequent drought, which can wipe out their livestock. The persistent lack of rainfall is a major factor in rural poverty. Drought has become more frequent and severe throughout the country over the past decade, and the trend shows signs of worsening. The impact of drought is most severe for vulnerable households living in the pastoral areas of lowlands and the high-density parts of highlands. In addition to their vulnerability to climatic conditions, poor rural people lack basic social and economic infrastructure such as health and education facilities, veterinary services and access to safe drinking water.

The intensity of poverty varies at the household level in relation to the land's size, quality and productivity, climate conditions and production technologies. Households headed by women are particularly vulnerable. Women are much less likely than men to receive an education or health benefits, or to have a voice in decisions affecting their lives. For women, poverty means more infant deaths, undernourished families, etc.

Ethiopia has an estimated 1.3 million people living with HIV and AIDS. Rural areas have low prevalence rates, but available data suggest that the incidence could increase in these areas. With the support of development partners, the government has embarked on major programs to combat the spread of HIV and AIDS, and assist poor rural households in coping with the social and economic consequences of living with the disease.

Poverty in Ethiopia is more pronounced in the rural areas as compared to the urban areas. The situation worsened recently because of sharp increases in the prices of food and agricultural inputs like fertilizers on world markets, which made it more difficult for poor households in Ethiopia, as elsewhere, to secure adequate food supplies.

## **2.5 Poverty Reduction**

The problem of poverty is more deep-rooted with several interlocked characteristics in developing countries. Poverty alleviation has remained a very complex and critical concern among third world countries for a long time. It has been at the top of the agenda for policy makers and development workers. Thus, a large number of governmental and non-governmental organizations and international funding agencies all over the world have been engaged in attacking poverty using several strategies and instruments (Rao and Bavaiah, 2005).

The approach to reduce poverty has evolved over the past 50 years in response to understanding of the complexity of development. In the 1950's and 1960's, many scholars considered large investments in physical capital and infrastructure as the primary means of development. In the 1970's the shift of emphasis grew that physical capital what economists call Economic Growth was not enough for development but also health and education were important not only in their own right but also to promote growth in the Incomes of poor people.

In 1980's another shift of emphasis was developed on improving economic management and allowing greater role for market forces, promoting labor-intensive growth through economic openness and investment in infrastructure, and providing basic services to poor people in health and education (WB, 2001). In 1990's the paradigm shift moved towards improving governance and institutions to address poverty. A strategy was designed to attack poverty in three ways. These are promoting opportunity, facilitating empowerment and enhancing security.

The overall economic growth and equity are crucial in the effort of reducing poverty. In this situation the role of the state is greater to support the buildup of human, land and infrastructure assets that poor people own or to which they have access. Strengthening the participation of the society, particularly the poor, in political process and in decision making, removing the social and instructional barriers that resulted from distinctions of gender, ethnicity and social status and also establishing sound and responsive institutions are important to bring the overall growth and benefit to the poor. Reducing vulnerability to either natural or man-made hazards enhances the well-being of the people and encourages investment. The multidimensional nature of poverty leads to greater complexity in poverty reduction. Thus, there is no universal blue print instrument in poverty reduction. Developing countries need to prepare their own policies to reduce poverty on the basis of national priorities and local realities. Their choice may depend on the economic, political, social, structural and cultural context of the countries. But action at national and local levels may not be enough for rapid poverty reduction.



International cooperation is required to ensure gains to poor countries and to poor people within developing world through debt relief, material as well as technical assistance, loan and providing market opportunities.

Even if developing countries have coherent and effective homegrown policies in poverty reduction, rich countries and international organizations have an important role in promoting global financial and environmental stability, lowering market barriers to the products and services of poor countries.

Simultaneous actions to expand opportunity, empowerment and security can create a new and dynamic change. If the developing world and the international community work together by combining real resources, experience, knowledge and imagination, there will be a rapid progress in poverty reduction in new millennium (WB, 2001).

Poverty reduction strategies are the outcomes of the insights and lessons drawn from the liberalization drive of structural adjustment programs experienced by the IMF, the world bank and the world community at large during the 1980's and 1990's. In this approach, growth has never sufficiently trickled down to reduce poverty reduction. The two institutions reached to an agreement that country owned poverty reduction strategies be the basis for World Bank and IMF concessional lending and guide the use of resources freed by debt relief under the enhanced HIPIC initiative. This was the genesis of poverty reduction strategy at the global level (MOFED, 2002). World leaders agreed to a set of time-bound and measurable goals and targets for combating poverty and hunger, disease, illiteracy, environmental degradation and gender inequality. This is called millennium Development Goals (MDG).

The Millennium Development Goals endorsed by all members of the United Nations set out eight specific crosscutting and interrelated goals that are essential to reduce poverty. The first seven goals focused on the duties of poor countries to meet the goals. The eighth goal is aimed at the rich countries and their commitment to respond to developing countries political and economic reforms with increased economic assistance, lowered import barriers and the deduction or elimination of unsustainable debt (UNDP, 2003).

The main precondition for achieving the millennium goals is sufficiently fast and equitable economic growth in developing countries to provide the material resources for reducing all kinds of poverty including human poverty.

The governments of developing countries are the most important actors in the development process. No amount of foreign aid can be effective in any country where the government is corrupt or fails to implement good policies. Formulating comprehensive national development priorities and coordinating their achievement is a crucial task that can never be entrusted to the private sector or to any foreign aid providers (WB, 2003).

## **2.6 Poverty Reduction in Ethiopia**

Ethiopia is one of the developing countries, which is faced with a complex, deep, broad and structural problem of poverty. The proportion of the population below the poverty line is estimated at around 44 percent. Thus, poverty reduction has become the central development agenda in Ethiopia like of other developing countries (Assefa, 2004). 21

Several reforms are undertaken in social, political and economical aspects to reduce poverty in the country. Ethiopia's development policies, strategies and programs adopted since 1992/93 have been concerned with how to bring sustainable and equitable development and then reduce poverty. With the above objectives, Ethiopia has formulated a Sustainable Development and Poverty Reduction Strategy Program (SDPRP) in 2002.

The program produced the basic framework for achieving fast and sustainable development and reduces poverty. The focus is on some selected key social and economic sectors. The main sectors on which development efforts would concentrate and which are considered as priority areas are agricultural and rural development, infrastructural development (road, water, telecommunication, electric power), and education and health sectors (MOFED, 2002).

Women and men have different access to critical economic resources and varying power to make choices that affect their lives. This leads to unequal roles and responsibilities of women and men.

The government of Ethiopia has recognized that any development effort ignoring or limiting the participation of women cannot be successful. Thus, the government of Ethiopia committed to reduce poverty in addressing gender dimensions and targeting poor people.

The government of Ethiopia has taken encouraging steps by privatizing the nationalized institutions and facilitating the establishment of new organizations. One of the outcomes is the liberalization of the financial sector and the establishment of legal framework that allows the emergence of microfinance institutions to serve poor households (Tsegaye, 2005). The government tries to solve the problem of financial access to the poor by promoting the microfinance institutions. The government believes that microfinance institutions are one of the instruments in poverty reduction.

The delivery of financial services has been viewed as one of the antipoverty tools of the development programs because of creating employment opportunities by increasing their income and consumption and then reducing poverty. Improving financial access to the poor also facilitates economic growth by easing liquidity constraints in production, by providing capital to start up new production. Therefore, the introduction of microfinance will have a significant effect in reducing poverty at Macro and micro levels (Wolday, 2003). Moreover some remedies that are suggested for bringing about a reduction in the Ethiopian poverty level are the reduction in the growth of population and macroeconomic stability. Efforts should be made to influence women and other less privileged people to participate in various awareness programs pertaining to family planning, education and health benefits.

## **2.7 Microfinance in Ethiopia**

Microfinance development in Ethiopia in institutionalized form is a recent phenomenon. But it has a long history in different forms. Government efforts of delivering credit to accelerate socio-economic development in Ethiopia may date back to the immediate post Italian occupation period with the establishment of the Ministry of Agriculture in 1943 and Agricultural Bank of Ethiopian in 1945. The main objective of the Bank was to assist small land holders whose farms had been devastated during the Italian occupation through loans to purchase agricultural inputs and repaired houses (Assefa et al, 2005).

During the Derg regime, a large share of credit was given to the state sector and marginalizing the private sector and the poor. Due to this, the private sector including the poor was forced to depend on self-financing and non-institutional credit, money lenders.

During the 1986-90 the share of domestic credit to the private sector and cooperatives averaged 4.7 and 1.1 percent respectively and the rest going to the government and public sector (WB, 1991). NGOs have been delivering relief and development services like emergency food, health, education and water in Ethiopia since 1970's. NGOs delivered micro-credit service to the poor as part of their poverty alleviation programs (Wolday, 2001).

Assefa et al., (2005) and Wolday (2003) indicated that many NGOs were involved in the provision of microfinance services particularly in rural area. Moreover, the credit delivered by NGOs faced many problems because of bad credit culture; which includes charging interest rates that do not reflect true costs, lack of sound lending and collection policies and procedures, credit was delivered without verifying borrower integrity and skill, lending based on NGO staff needs rather than felt needs of borrowers, loan terms were not based on repayment capacity, lack of collection efforts by the staff and providing loan outside the target group (to staff friends, relatives and the like). The donor or NGO driven micro-credit programs were commonly used in many developing countries and are still in practice in some countries. The approach is known as poverty lending approach that is supply-driven rather than demand driven and focused mostly on credit. On the other hand, this approach disregarded the domestic saving mobilization. As the approach changed from subsidized to market based principles, governments and NGOs considered microfinance as the integral part of the financial system and they recognize the importance of both credit and savings services (Ledgerwood, 1999). 27

In 1990, an agreement was signed between the Ethiopian government and International Development Association (IDA) for a Market Towns Development Project with the objective of tackling poverty through employment creation and income enhancement by providing credit (Meehan, 1999). But the operation was for the first time undertaken after 1994 in regulated form (Tsehay and Mengistu, 2002). Most of the borrowers were women during the time. Wolday (2003) indicated that financial schemes of NGOs and institutions that do not follow sound, sustainable financial principles and facilitate real economic growth might cause more harm than benefit. The study recommended that the government should develop national standards for NGO credit programs.

Thus, the government took the initiative to establish the regulatory framework in order to facilitate sound development of the microfinance industry. Development of microfinance in Ethiopia should also be viewed as an identification of considerable levels of unrealized demand and potential market growth for financial services and a shift by the NGO sector and government from relief assistance to sustainable development which intersects at the point of institutionalization of microfinance provision (Fiona, 1999).

Interventions through the delivery of microfinance services have also been considered as one of the policy instruments of the Government and Non Government Organizations (NGOs) to enable rural and urban poor increase output and productivity, induce technology adoption, improve input supply, increase income, reduce poverty and attain food security. The establishment of sustainable microfinance institutions that reach a large number of rural and urban poor who are not served by the conventional financial institutions, such as the Commercial Banks, has been a prime component of the new development strategy of Ethiopia.

Although the development of microfinance institutions in Ethiopia started very recently, the industry has shown a remarkable growth in terms of outreach particularly in number of clients. Since the issuance of Proclamation 40/1996, which provides the establishment of microfinance institutions, currently there are 29 MFIs serving about 1.8 million people in Ethiopia (Muluneh A., 2010). But the percentage of active women borrowers has not reached that of the African average. Out of 15 microfinance included in the association of Ethiopian MFI's the percentage of women borrowers was about 29% as compared to Africa, 60% (AEMFI, 2004).

Moreover forming an association called Association of Ethiopian Microfinance Institutions (AEMFI) networks the Ethiopian MFIs. AEMFI as non-profit and non-governmental organization plays an important role for the development of microfinance industry in Ethiopia by promoting best practices in the industry, serving as a forum for debate and dialogue, facilitating sharing of experience and information, and creating an enabling environment for the industry. Currently all 29 MFIs are registered as a member of AEMFI (Haftu, 2005; AEMFI, 2005)

According to Dejene and Mulat, there are three sources of credit in Ethiopia. Formal credit sources, informal credit sources and NGO. Formal credit sources include Banks, credit cooperatives and credit associations.

The informal credit sources include friends, relatives, neighbors, and mutual help associations such as Idir, Ikub, Maheber and church. More over the informal money lenders are the main sources of credit in Ethiopia. Previously NGOs were the main source of credit in Ethiopia, but after the issuance of proclamation No 40/1996 the majority of the NGOs in Ethiopia were terminated the delivery of financial services (Wolday, 2003). Recently, microfinance institutions are emerging rapidly in the country based on the new approach and in line with the new microfinance law.

It is experienced in the country that the poor households are the main participants in some kinds of informal sector of ranging from small petty trading to medium scale enterprises (Jean-Luc 2006), And due to the fact that this sector uses intensive labor force and as well since it is the livelihood of most of the poor, so developing this sector argued to be a weapon to resolve the problem of unemployment and poverty of a household ( Lakew 1998 and Jean-Luc 2006)

## **2.8 Microfinance and Women**

Micro credit programmers aimed at empowering women have become popular among donors and NGOs. Development polices with the approach of women's empowerment through women organizing for greater self-reliance has also resulted in a change of policies for the enhancement of women's economic role. Since microfinance organizations have financial focus, they are expected to impact the lives of the poor (Kabeer, 2005). 14

Micro credit is about much more than access to money. It is about women gaining control over the means to make a living. It is about women lifting themselves out of poverty and vulnerability. It is about women achieving economic and political empowerment within their homes, their villages, their countries. (Beijing +5 Conference, 2000) (Kabeer, 2005) states that in order to bring women's empowerment, microfinance needs to help poor women address their daily needs as well as their strategic gender interests.

It is recognized that strategic gender interests go to the very heart of the structures of patriarchal power: the abolition of a coercive gender division of labor; of unequal control over resources; ending male violence, women's control over their own bodies, the establishment of political equality and the ending of sexual exploitation (Molyneux 1985).

## **2.9 Women Empowerment**

Empowerment is the process of obtaining basic opportunities for marginalized people, either directly by those people, or through the help of non-marginalized others who share their own access to these opportunities. It also includes actively thwarting attempts to deny those opportunities. Empowerment also includes encouraging, and developing the skills for, self-sufficiency. This process can be difficult to start and to implement effectively.

Empowerment strategy is to assist marginalized people to create their own nonprofit organization, to deploy the empowerment of women is through land rights, allocation of responsibility to them that normally belong to them Political participation, be it the ability to vote and voice opinions, or the ability to run for office with a fair chance of being elected, plays a huge role in the empowerment of peoples. However, participation is not limited to the realm of politics. It can include participation in the household, in schools, and the ability to make choices for one.

It is argued that Microcredit also offers a way to provide empowerment for women. Governments, organizations, and individuals have caught hold of the lure of microfinance. They hope that lending money and credit allows women to function in business and society, which in turn empowers them to do more in their communities. One of the primary goals in the foundation of microfinance was women empowerment. Loans with low interest rates are given to women in developing communities in hopes that they can start a small business and provide for her family.

Empowerment of women means to let women survive and let them live a life with dignity, humanity, respect, self esteem and self reliance. Kabeer (1999) stresses that women's empowerment is the process to acquire the ability from which those who have been denied the ability to make the strategic life choices. Her emphasis that ability to exercise choice incorporates three interrelated dimensions: Resources, Agency and Achievements. According to UNIFEM, "to generate choices, gaining the ability and exercise bargaining power, developing a sense of self worth, to secure desired changes, belief in one's ability and the right to control one's life" are important elements of women empowerment. Women will be empowered when they will have full control over their own life.

## **2.10 Some of the Microfinance Impact Studies**

### **2.10.1 Overall Microfinance Impact Studies**

Microfinance is the provision of financial services to the poor people with very small business or business projects (Marzys, 2006). Only a small fraction of the world population has access to financial instruments, essentially because commercial banks consider the poor people as not bankable due to their lack of collateral and information asymmetries.

There are a number of studies in the MF industry because it has got the attention of academicians and practitioners as an innovative method of fighting poverty. The studies mostly concentrate on three key areas.

The first one is impact assessment of the MF programs on the lives of the poor. It is to mean that whether the provision of financial service mostly of credit and saving has improved the lives of the poor in terms of economic, social and political indicators of poverty. Using much type of quasi experimental designs the studies about the impact of the microfinance in changing the lives of the poor have shown mixed results (Hishigsuren, 2004). Sebstand and Chen, 1996 cited in Hishigsuren, 2004 summarized the key findings from thirty two impact studies and revealed varying degree of positive impact on program participants notably increase in household and enterprise income and assets. Mixed effects were found in employment, children schooling and women's empowerment.



Moreover At the house hold level, micro-finance services have impacts on household income, income diversification, household assets, education, health, nutrition and coping strategies which are mainly the indirect impacts of increased in household income generated by the micro enterprises (Khandker,1998 and Hulme 2000).

The second hot area in the MF industry researchers is whether MF reaches the poorest of the poor who is in need of financial services. There are studies that show that MF doesn't reach the poorest of the poor. Rather they are reaching the marginally poor or non-poor. Besides most MFIs have no clear rules and criterion to target the poorest of the poor (Hishigsuren, 2004). This indicates that the MFIs are drifting away from their original mission of reaching and serving the poor.

The third area that got the attention in the MF industry is the issue of financial sustainability of MFIs. Historically MF has started operation with donor funds and now the industry has almost to bed on or supported or gets relived from donation and stand on their own leg. There are one school of thought which say MF should be sustainable with donor funds(called welfares) and the others say the MF should generate enough revenue to cover their own costs as donors funds are unpredictable (Basu and Woller, 2004). Hence the issue of building a sustainable Findus try that can operate without a donor funds is of an empirical enquiry aged around 30 years.

### **2.10.2 Gender Based Impact Studies**

The general expectation that impacts of credit programs are greater with women participants has led many microfinance institutions in Africa and Asia to narrowly limit their target group to women. The results of Pitt and Khandker study demonstrated strong gender-differentiated impact and hence are supportive of such a stance. Any observable changes in gender-based differences in impact, by corollary, carry two implications.

The first implication is that providing credit to women provides additional empowerment of women in household decision-making. This is because, without the empowering effect, who signed up for the loan would not matter for its use, given fungibility of capital.

The second implication is that women's preferences are not the same as the men's. Otherwise, no difference would have been observed in impact even if empowerment effects were present. Gender-based differences in impact are echoed in a number of other studies as well. Osmani (1998), for instance reports that improvement was seen in the bargaining position of women in Bangladesh because of their access to credit. Schrieder (1996) also by presenting supportive evidence from Cameroon contends that giving credit to women results in resources and profits being plowed back into the development of the immediate household. However, positive gender effects cannot always be taken for granted. Osmani (1998), for example, points out that because of women's generally low absorptive capacity (for example, their limited ability to use larger amounts of credit in the prevailing cultural conditions and in the absence of economic opportunities), many women are likely to lean on their husbands to make better use of the loans.

In general, though in some cases the impact of microfinance on women empowerment is not satisfactory due to limited capacity of women to use large amount of loan and absence of economic opportunities as well as cultural impact, it has a positive impact on empowering women clients to participate in decision making activities and improvement of households welfare as a result of their participation in microfinance services.

### **2.10.3 Microfinance Impact Studies in Ethiopia**

Microfinance has become a growing sector in Ethiopia. This is partly because of the demand created by the abject poverty in the country and encouraging policy atmosphere for the microfinance services as part of poverty reduction strategy. Accordingly, there have been a growing number of microfinance impact studies being conducted by academic institutions, microfinance associations, government agencies, and funding organizations and donors. As a result, it seems difficult to get all the impact studies undertaken by the host of actors and partners. However, some of the studies to which the researcher granted access have been reviewed here. For instance, Wolday (2003: 42-3) concludes that the microfinance industry in Ethiopia showed remarkable growth in terms of outreach. He states that the "MFIs have been successful in addressing the financial needs of the rural poor." Good repayment rates, mobilization of significant amount of savings from the poor, and promotion of food security among the poor were reported by the study.

Doocy et.al (2005) in their research on programmers of Wisdom Microfinance Institution in southern parts of Ethiopia suggested that microfinance programs have important impact on nutritional status and well-being of female clients and their families. The paper noted that 26 clients were significantly less likely to be food aid recipients than non-clients. It also reported success in reducing vulnerability to prolonged drought and food insecurity.

The paper by Fitsum and Holden (2005) indicated that the impact of participation in microfinance resulted in positive changes in per capita consumption expenditure but not statistically significant. The impact on off-farm income and children's education was statistically significant positive change. However, livestock holding is negatively correlated with participation in the microfinance.

In his study undertaken in Amhara Regional State, Getaneh (2004) said that even though microfinance programs are expected to positively affect household economic portfolio, income, coping mechanisms against risks, empowerment of the poor, food security, and business profitability, "the available evidence suggests little progress in this regard." The findings of Mayoux (1998) shown that links between microfinance and women's empowerment are positive but limited by design, cost effectiveness in eliminating poverty, and a misplaced diversion of resources. The paper stated many women did not control loan use. Microfinance programs in some cases create domestic tension between spouses, and many women focused on personal rather than social objectives. In connection with women's empowerment, Padma and Getachew (2005) reported positive impact of microfinance.

Tsehay and Mengistu (2002) reported more positive impact of microfinance on poor women in Ethiopia. They concluded that participation resulted in significant increase in household income. Women were said to be able to provide for the basic needs of their families; had control over resources; owned assets; able to cope up with risks; save more for future use; and increased empowerment, among other things. According to Meehan (2000), services of Dedit Credit and Saving Institution had a significant impact on increasing agricultural production, increasing trading activities, increasing income, food supply, child education, clothing and other basic necessities. The study concludes that the credit provision had a positive impact on alleviating poverty.

Asmelash (2003) said though not statistically significant, clients had higher income than non clients. He also reported more diversified income sources, building of key assets, improved child education, increased access to health facilities and nutritional intake, and improved risk management capacity. Most (if not all) empirical microfinance impact assessment studies on Ethiopia reported positive changes in the lives of the clients. However, some of the changes observed were not significant.

In summary, microfinance has been carried out to alleviate poverty by connecting the poor into productive economic circuit. This objective was expected to be attained by creating jobs, increasing income, diversifying income sources, availing better access to health and education, empowerment, and protecting against risks, among others.

Practice, however, revealed that the outcomes of microfinance have been both the anticipated positive changes and in some cases unexpected negative results. These outcomes include generating sufficient income to exit the low-income people from poverty and powerlessness; achieving slight economic objectives in reducing poverty; and pushing the participants further into poverty. Such mixed research findings cause prevailing doubt concerning positive impact of microfinance that also became the beginning of this study. However, in conclusion governments and donors should know whether the poor gain more from small loans compared to other alternatives such as health care, education, agriculture, food aid etc. Most measures of the impact of microfinance institutions fail to control for what would have happened in their absence. The net contribution or impact of microfinance to poverty reduction should be properly and more accurately measured.

## **Chapter III Methodologies**

### **3.1 The Study Area**

Shirka Woreda is located in Oromia Regional state, Arsi zone and contiguous with Agarfa Woreda of Bale zone in south, Lemu and Bilbilo (Bokoji) in west, Robe Woreda in east and Ticho and Tiyo in northern. Shirka is surrounded by Chilalo mountain with altitude of more than 3500 mm and Arsi Bale massive and Wabe river in south and Hulul river at east which makes the location dry island and very unique and attractive.

Agriculture is the main economic activity in the area. The non-agricultural activity is not widely practiced in the area except some petty trading activity at micro level. According to the woreda agricultural office the total area of the woreda is about 109,300 ha with the cultivated area of 58,000 ha . From the total area 22 % high land (baddaa), 32 % medium (baddadaree) and 46% low land (gammojji). The total human population of the region is about 163,117 of which 81,461 are male and 81,656 are women. The major crops grown in the region are wheat, Barley, Teff, Maize and Sorghum. Spices and other different crops are also grown in large quantity in the area. Shirka is one of the highest productive and surplus producing area in the zone .Moreover live stocks production is common in the area. Many rivers are available covering the whole area but no enough irrigation (both modern and traditional) facilities.

Even though the area is potentially productive in both food crops, cash crops and livestock, it lacks some infrastructures such as rural road, rural electrification, financial institutions such as banks and other facilities as demanded. In the Woreda there was no any government as well as private banks available which provide credit service for long times. Before the inducement of OCSSA the farmers were exploited by traditional money lenders. More over many businessmen went to another Woreda, Bokoji, for borrowing money from banks to run their business. Currently the OCSSC is the only MFI providing credit for the rural community including rural women in the area.

### **3.2 Research Method**

The research method employed was a survey method. Both qualitative and quantitative data were used in the study. The data included both primary and secondary data.

The primary data was collected by conducting an interview with target sample respondents, using a semi structured questionnaire containing both close and open ended questions. The questionnaire was prepared in English and translated to Afan Oromo during the interview by the interviewers; the interviewers were oriented to translate English to Afan Oromo. This is because the local language that both the respondents and the employee can easily understand is the Afan Oromo language. The secondary data was collected from secondary sources including published books, unpublished yearly or quarterly reports, journal of articles, CSA reports and other relevant of financial reports .More over different websites were used as source of information.

### **3.3 Sampling frame, Sample size and Sampling Procedures.**

The selection of the study area, Shirka Woreda, from other branches of OCSSA in Arsi Zone was based on the potential of the area in the production of cash crops and lack of other financial institutions in the area which provide credit for the women so that the true impact of the OCSSA on the living condition can be indicated. A total sample of 70 women members of the OCSSA was selected from three credit centers in the Woreda using Purposive sampling technique. The sample women member of the OCSSA was selected according to the duration of time they participated in the program. Early membership was selected first from each credit centers. The name of the members in three credit centers were written first and then the longer their duration were the criteria for the members to be selected for the interview.

In this study, mix of approaches was used in data gathering instruments, in assessing the impact of OCSSCO clients. Primary data was collected through the interview from the sample respondents using semi structured questionnaire.

In addition to this, focus group discussions were also conducted with the clients of the program and officials and employees of study area. Moreover Secondary data was collected from secondary sources such as review of books journal articles, unpublished study documents CSA reports and other official reports of relevant quality, and internet sources.

### **3.4 Data Analysis**

After collecting the required information the next step was analyzing the data. Descriptive statistics, analysis method was used for this research because the majority of the information is qualitative and the respondent's personal response is included in the research. Percentages, graphs and narratives are used to describe the finding of the study.

## Chapter IV Findings of the Study

In this section data collected both from primary and secondary sources were presented, analyzed, and interpreted in detailed based on the general and specific objectives of the research. The respondent's general characteristics and various socio-economic issues related with tangible impacts of MFIs at individual and enterprise level was discussed in detail.

### 4.1 General Characteristics of Respondents

The demographic characteristics of the respondents such as their age's, number of dependents, marital status, their educational **of** level, may have direct or indirect relations with the way they use the loan or other financial services. The following table summarizes the sample respondents' individual demographic characteristics.

#### 4.1.1 Age Distribution of the Respondents

**Table 4.1 Sample respondents by age**

Age	No of cases/count	Percent (%)
18-20	0	0
21-30	11	15.7
31-40	26	37.1
41-50	23	32.9
51-60	9	12.9
>60	1	1.4
<b>Total</b>	70	100

Source: survey data

In the table 4.1 most of the respondents [85.7%] were in the reproductive ages; i.e., 15.7% were in the age group 21 - 30 years, 37.1% were between 31 and 40 years and 32.9 % were between 41 and 50. Only 14.3 % were above age 50. So, higher proportion of women were in the lower age group, probably in the most active and energetic age. The mean average age of the respondents was 45.5 years, and this shows that with this adult age they can perform well



and more females were at their younger ages, with strong desire to work hard and with optimistic future. This may have an influence on the success and continuity of their microenterprises and thereby contribute to the impact that credit may have in their lives.

#### 4.1.2 Educational Status of Respondents

**Table 4.2 Percentage distribution of the sample respondents by level of education**

<b>Education level</b>	<b>No. of cases /counts</b>	<b>Percent (%)</b>
<b>Illiterate</b>	41	58.6
<b>Grade1-4</b>	15	21.4
<b>Grade5-8</b>	10	14.3
<b>Grade9-12</b>	4	5.7
<b>Above grade 12</b>	0	0
<b>Total</b>	70	100

Source: survey data

From the sample respondents indicated in the table 4.2, 41(58.6%) were non-literate, 15(21.4%) were grade 1-4 complete and 10(14.3%) were grade 5-8 complete. Only 4 out of 70(5.7%) sample respondents were grade 9 and above. This shows that majority of the sample respondents 41 out of 70(58.6%) their educational status lies in the range of non-literate.

Education is one of the key variables that may influence the behavior and efficiency as well as effectiveness of people. Education is a decisive factor in uplifting the Individual and society, because it improves his/her skills, potentials and makes him/ her more creative, and more innovative.

Three out of any five respondents [58.6%] were illiterate and only 41.4% of the Respondents were literate. This high degree of illiteracy may have an impact on the way the clients use the financial services that they receive.

Literate clients may influence the impact of the microfinance services through increased savings, repeat loans, amount of loan taken and thereby contribute to the success of their business. This illiteracy problem is not limited to only the use of financial activities but also it affects on all living condition of people in general rural women in particular.

### 4.1.3 Marital Status of Respondents

**Table 4.3 Sample respondents by marital status**

<b>Marital status</b>	<b>No. of cases /counts</b>	<b>Percent (%)</b>
<b>Single</b>	2	2.9
<b>Divorced</b>	3	4.3
<b>Married</b>	51	72.8
<b>Widowed</b>	14	20
<b>Other if any</b>	0	0
<b>Total</b>	70	100

Source: survey data

Considering the marital status of the respondents, in table 4.3 above 2(2.9%) were single, 51(72.8%) were married, 3 (4.3%) were divorced and 14(20%) were widowed. Out of the total sample women about 27.2% of the females were not currently living with husband (they are living alone) and 72.8% were currently married and live with husbands. This shows that there was high rate of family dissolution; i.e., 27.2% of the females were separated, divorced or widowed.

Due to these and other reasons, the proportion of family dissolution rate in the study area was very high. This may be one of the causes for using microfinance services as a means to improve their livelihood.

#### 4.1.4 Trends of Dependents

**Table 4.4 Number of dependents in the house hold**

<b>No of dependents in the house hold</b>	<b>No cases Before the loan</b>	<b>No of cases After the loan</b>
<b>1(one)</b>	1	1
<b>2(two)</b>	2	1
<b>3(three)</b>	8	11
<b>4(four)</b>	12	7
<b>5 and above</b>	47	49
<b>Total</b>	70	70

Source: survey data

The number of sample respondents with the same number of dependents before and after the loan was almost similar and did not have significant difference. Whereas the average numbers of house hold dependents before the loan was 5.76 and after the loan was 8.175. There was the increment of the number of household dependents of clients after they have become the beneficiaries of the micro finance program. According to the survey result majority of the respondents had 5 and above number of dependents both before and after the loan.

#### 4.1.5 Membership and Loan trends of the Respondents

**Table 4.5 Membership and loan trends of the respondents**

<b>Financial institution</b>	<b>Membership</b>		<b>Is loan sufficient</b>				<b>Proposed loan Mean average</b>
			<b>Yes</b>		<b>No</b>		
			<b>Cases</b>	<b>%</b>	<b>Cases</b>	<b>%</b>	
OCSSC	70		27	39	43	61	8127.90

Source: survey data

**Table 4.6 Amount of credit provided from OCSSCO to the sample clients**

<b>NO of loan rounds</b>	<b>No of cases/counts</b>	<b>Total loan(Br)</b>	<b>Average loan per individual (Br)</b>
<b>1<sup>st</sup> round</b>	70	102570	1465.29
<b>2<sup>nd</sup> round</b>	70	162990	2328.42
<b>3<sup>rd</sup> round</b>	45	136400	3031.11
<b>4<sup>th</sup> round</b>	27	97000	3592.6
<b>5<sup>th</sup> round</b>	19	86100	4531.58
<b>6<sup>th</sup> round</b>	11	60200	3010
<b>Total</b>	242	645260	2993.16

Source: survey data (currency 1US \$ =18.50 Eth. Br)

According to the survey result of the respondents indicated in table 4.5 there was no other legal Institution in the study area that provides credit in rural area except the OCSSCO. Out of the total sample respondents 61% responded that the loan provided by OCSSCO was not sufficient whereas 39% of the respondents indicated that the loan provided was sufficient for their purpose. This indicates that the loan that the OCSSCO provide for the clients was not sufficient to achieve the proposed objectives of the respondents.

In table 4.6 the loan average taken by the respondents was 2993.16 Birr per individual whereas in table 4.5 the proposed loan average that the respondents need was 8127.90. There was great difference between the loan amount provided by OCSSCO to the sample clients and the amount of loan that was needed by the clients.

## 4.2 Impact Assessment of Microfinance Institution (OCSSCO)

### 4.2.1 Impact of OCSSCO on Income

Micro finance is expected to improve the long term economic and social security of its clients through wealth creation, income smoothing and asset building etc. The assumption is that the intervention of the micro finance through the provision of financial services, especially credit that aimed at enhancing the welfare and economic situation of its clients by availing adequate finance to engage them in profitable activities. On the other hand, if the loan is used for nonproductive activities, such as consumption and purchase of non-productive assets, micro finance intervention will not bring the intended impact, which is poverty reduction.

One of the immediate impacts of having access to credit from the micro financing program is on income of clients' households. Thus, participation in micro finance program may have a positive impact on the economic welfare of clients' households. Households with higher income levels have more choices, can better meet their basic needs, and enjoy broader opportunities. And the change in the household welfare may be evident in the diversification of income sources and in the trend of income in the food security, in the education of children and access to health facilities, employment opportunities, in the food consumption patterns, and the ownership of specific key assets. The following tables summarized the trends of the household income of the respondents.

**Table 4.7 Trends of household income**

<b>Overall household income trend during the last 2 years</b>	<b>No of cases</b>	<b>Percent (%)</b>
<b>Increased</b>	63	90
<b>Remain the same</b>	3	4.3
<b>Decreased</b>	4	5.7
<b>Total</b>	70	100

Source: survey data

Participation in micro finance service has an expectation that leads to increase in household income. Therefore, in order to evaluate the impact of OCSSCO's service on the household's income of its clients, sample respondents were asked to judge the trends of their household income in the past two years. Accordingly, the result in the table 4.7 indicate that 63(90%) of clients replied that their income has increased in the past two years, 3(4.3%) of clients reported that they have experienced no change in their income and 4(5.7%) of sample client replied that their income has decreased in the previous two years.

Respondents were also asked the reasons for increased or decreased income of their household since they have participated in the micro finance program.

**Table 4.8 Reason of income increase**

<b>The reason for increase of income</b>	<b>No of cases/counts</b>	<b>Percent (%)</b>
<b>Good Agricultural season</b>	24	38
<b>Expand existing business</b>	8	12.69
<b>Able to purchase input due to Accessibility of credit</b>	27	42.85
<b>Got jobs</b>	2	3.18
<b>Other</b>	2	3.18
<b>Total</b>	63	100

Source: survey data

Based on the report in table 4.8 the reason why their income had increased in the previous two years, 27(42.85%) client replied that their income had increased due to they were able to purchase in put because of accessibility of credit, 24(38%) of clients replied that their income had increased due to good agricultural season. Even though there was no significant difference between the impact of credit assessment and good agricultural season for the income increment of the sample respondents, the main reason for increment of income of client (42.85%) was due to accessibility of credit.

**Table 4.9 Reason of income decreased/remain constant**

<b>Reason for income decreased/remain constant</b>	<b>No of cases/counts</b>	<b>Percent(%)</b>
<b>Illness or death of one or more of family member</b>	1	14.29
<b>Unable to get input due to lack of credit</b>	0	0
<b>Crop failure</b>	5	71.43
<b>Family member lost job</b>	1	14.28
<b>Other</b>		
<b>Total</b>	7	100

Source: survey data

On the other hand, the most fundamental reasons for decreased/remain the same household income were asked , accordingly, 5 out of 7 (71.43%) Clients replied that their income has decreased/remain the same because of crop failure. The remaining 2 out of 7 (28.57) respondents their income remain the same/decreased due to Illness or death of one or more of family member and their Family member lost job were the main reasons why their income were decreased/remain the same.

#### **4.2.2 Impact on House Hold Consumption**

Micro finance intervention is expected to support clients in ensuring food security, which is one of the main objectives of the institutions and the prime concern of all house hold insuring food security, (Tsehay and Mengistu, 2002). The condition of diet (nutrition) is an important factor in the well being of the household members. Thus, the assumption of this variable is that the participants of the micro finance scheme will have a better house hold diet condition and food security in bad years. Hence, for the purpose of this study the monthly expenditures on food and the trend of consumptions expenditures of respondents were used as the variables. In line with this, respondents were asked the changes they perceived in their food consumption after micro finance program participation.

**Table 4.10 Approximate monthly consumption of the respondents**

<b>Indication of monthly consumption measure</b>	<b>Before the loan Eth. Birr</b>	<b>After the loan Eth. Birr</b>
<b>Mean average monthly consumption per sample clients</b>	308.99	530.49

Source: survey data (currency 1\$=18.50 Eth Birr)

Before the loan the approximate mean monthly consumption expenditure per client was Birr 308.99. After the loan the average approximate monthly consumption expenditure of client was Birr 530.49. The change was 221.5 Birr. This indicates that approximate consumption level was increased by 221.5 Birr after loan.

The change of approximate monthly consumption expenditure of clients after the program was higher than before so the result supports the argument that the intervention of the micro finance improves the consumption expenditure of the households of its clients.

### **4.2.3 Impact on Accumulation of Assets**

The survey attempted to assess the impact of micro finance on households' accumulation of assets. This is because ownership of durable assets is regarded as one of the most important indicators of improvement in the household welfare. In this regard, in addition to the impact on the overall house hold income, micro finance is also expected to improve the ownership of key household assets of its clients. For many households, the house, they owned, is the most valuable asset. When the house is improved, it appreciates in value, and there by increases a house hold's material wealth, it provides shelter and contributes directly to the material well being of the house hold, but it can also serve to create or enhance a business premise. Housing improvements may create space for inventory or other enterprise-related items.

Hence, the assumption of this variable is that, beneficiaries of micro finance scheme have better housing condition and ownership of residential houses obtains an opportunity of large capital through loan, they will be engaged in more profitable and productive activities, thereby increasing their income level. Due to this, they will have better financial capacity to upgrade their residential and business houses through repair or build additional rooms from the income obtained due to loan able activities.



**Table 4.11 the type of the house the respondents have**

<b>Type of house</b>	<b>No of cases/counts</b>	<b>Percent (%)</b>
Roof with iron sheet	33	47.15
Roof with grass	37	52.85
<b>Total</b>	<b>70</b>	<b>100</b>

Source: survey data

Table 4.11 shows that currently more than half of the respondents live in the grass roof houses but only 47% live in the iron roof houses. This indicated that more work is expected from the concerned government body to help them to improve their housing.

Furthermore, Table 4-12 summarizes the frequencies of whether the respondents have made any improvement on their houses or not after the use of loan.

**Table 4.12 Answer of the respondents whether they have Improved their house or not**

<b>Response on improvement of their housing</b>	<b>No of cases/counts</b>	<b>Percent (%)</b>
<b>Yes</b>	55	78.57
<b>No</b>	15	21.43
<b>Total</b>	<b>70</b>	<b>100</b>

Source: survey data

The survey result from table 4.12 indicated that 55(78.57%) of the clients made improvements in their houses through repairing and/or buying housing equipment during the last two years. From this result, it was possible to say that OCSSCO's micro financing intervention has appositive impact on the housing improvement of the households of its clients. To improve this argument, when clients were asked the source of income to improve their houses, their reasons or source of income for improvement of their houses would be summarized as follows.

**Table 4.13 Reason for the improvement of the house of the respondents**

<b>Reason for the improvement</b>	<b>No of cases/counts</b>	<b>Percent</b>
<b>Access to credit</b>	29	52.73
<b>Gifts or Aids</b>	2	3.63
<b>Improved income</b>	24	43.64
<b>Others</b>	0	0
<b>Total</b>	55	100

Source: survey data

From the survey result indicated in table 4.13 , it was found out that out of the total clients reported that had improved their house, 29(52.73%) replied that the source of income for the improvement of their house was due to access of credit from the micro financing intervention. Therefore, the results suggest that OCSSCO’S micro financing intervention had a positive impact on the improvement of housing of its client’s households.

**Table 4.14 Trends of number of livestock of clients after program**

<b>Number of livestock after program participation</b>	<b>No of cases/counts</b>	<b>Percent (%)</b>
<b>Increased</b>	52	74.28
<b>Remained the same</b>	11	15.72
<b>Decreased</b>	7	10
<b>Total</b>	70	100

Source: survey data

Livestock’s are considered as the assets of the rural community which are kept for time of risks and other purpose. According to the survey result in table 4.15, 52(74.28) clients increased their number of livestock after program participation, and 18(26.72%) of the respondents not increased the number of their livestock. This indicates that the OCSSC had a positive impact on the increment of the number of livestock of its clients.

#### 4.2.4 Impact on Purchasing power of Clients

It is assumed that people with better income may have a capacity to spend more. On the other hand, although poor people have a need to expend in order to live a luxurious life, but they have no income to spend. It is assumed that Micro finance Institutions can improve the purchasing power of their clients through the provision of credit. Accordingly, the respondents were asked whether their purchasing power to buy items was improved or not. The result was shown in the following table.

**Table 4.15 Trend of purchasing power of clients**

<b>Purchasing power to buy items improved</b>	<b>No of cases/counts</b>	<b>Percent (%)</b>
<b>Yes</b>	62	88.57
<b>No</b>	8	11.43
<b>Total</b>	70	100

Source: survey data

From table 4.15 the survey result indicated that 62 (88.57%) of the clients reported that their purchasing power to buy items was improved. On other hand 8(11.43%) of clients replied that their purchasing power was not shown improvement.

**Table 4.16 Reason for improvement/not improvement of purchasing power**

<b>1.Reason for purchasing power was improved</b>	<b>No of cases/counts</b>	<b>Percent (%)</b>
<b>Due to increase in income from microfinance activities</b>	36	58.06
<b>Due to increase in income from non-microfinance activities</b>	2	3.23
<b>Gifts or aids</b>	2	3.23
<b>Good agricultural season</b>	18	29.03
<b>Others</b>	4	6.45
<b>Total</b>	62	100
<b>2. Reason for purchasing power was not improved</b>	<b>No of cases/counts</b>	<b>Percent (%)</b>
<b>Failure of agricultural products</b>	<b>6</b>	<b>75</b>
<b>Others</b>	2	25
<b>Total</b>	8	100

Source: survey data

From the survey result indicated in table 4.16, out of the sample respondents who reported that the trend of their purchasing power to buy items was shown improvement, 36(58.06%) of the clients replied that their purchasing power to buy items was improved due to income from loan able activities. On the other hand, out of the sample respondents who reported that the trend of their purchasing power to buy items was not shown improvement, 6 (75%) of clients agreed that their purchasing power to buy items was not improved due to failure of Agriculture. The findings of the survey indicated that OCSSCO’S micro financing scheme had a positive impact on the improvement of the purchasing power of its beneficiaries to buy items.

#### 4.2.5 Impact on Access to Education

As children and other school age dependents of the poor households have marginal access to educational facilities, credit provision for income generating activities is expected to improve this Situation. The assumption is that households with higher income levels have more choices and broader opportunities so as to meet their needs. Therefore the hypothesis of this section is that in addition to the improvement in income, micro finance is also expected to improve the possibility of additional expenditures in education of beneficiaries' household members. The findings below were based on the number of school age children attending school. A simple measure of participation in education is the enrollment rate, defined as the percentage of children with the normal age range for attending a particular level of schooling that are actually enrolled. Information was collected on the trend of school age children enrolment of the clients; the findings of the study were as follows.

**Table 4.17 Trends in number of family members attending school**

<b>Number of family members attending school</b>	<b>No of cases</b>	<b>Percent (%)</b>
<b>Increased</b>	46	65.72
<b>Remain the same</b>	7	10
<b>Decreased</b>	12	17.14
<b>Other</b>	5	7.14
<b>Total</b>	70	100

Source: survey data

The survey result regarding trend of school age children enrollment during the last two years reveal that the clients of the house hold had reported better improvement on school age children enrollment during the period. The result shows that 46(65.72%) of sample clients reported the trend that the number of their family members attending school increased for the last two years. The remaining sample respondents 7(10%) did not show changes in enrolment after loan,12(17.14%) decreased because of dropouts due to a number of reasons including migration to outside the country in search of jobs and 5(7.14%) the loan takers did not have children to send school.

**Table 4.18 Reasons for increase in school Enrollment**

<b>Reason for increase in school enrolment</b>	<b>No of cases/counts</b>	<b>Percent</b>
<b>Income improvement from loan</b>	33	71.74
<b>Access to new school building</b>	2	4.34
<b>Increase in the awareness of household towards education</b>	11	23.92
<b>Total</b>	46	100

Source: survey data

Farther more, when clients were asked for the reasons of increase or decrease in the trend of their access to school during the last two years, table4.18, those who had shown an increasing trend 71.74% of them had replied that the main reason for the improvement of school age enrollment in their house hold, was income improvement from loan able activities and 23.92% replied increase in the awareness of households towards education for the improvement of enrolment. Moreover access to new school building (4.34%) was one of the reasons for the increment of school enrolment.

**Table 4.19 Reason to decrease/remain the same in school enrollment**

<b>Reason for decrease/remain constant in number of school attendance</b>	<b>No of cases</b>	<b>Percent (%)</b>
<b>Lack of income for payment of school tuition fee</b>	5	20.84
<b>Lack of access to education in area</b>	0	0
<b>Lack of interest to attend school</b>	8	33.33
<b>Others</b>	11	45.83
<b>Total</b>	24	100

Source: survey data

The sample survey data in table 4.19 indicated that 24(34.28%) of the sample respondents replied that the number of school attending was not increased. According to the survey 20.84 % was because of lack of school fee, 33.33% was due to lack of interest to attend school and the remaining 45.83% was due to other reasons, migration to foreign and domestic towns in search of jobs were the majors one. Moreover the main reasons for the school age children do not attend the school include they are needed to work in business and agricultural activities.

#### 4.2.6 Impact on Access to Medical Facilities

With regard to the impact of OCSSCO's on access to medical facilities to its clients, the respondents' access to medical facilities during the last two years was summarized in the following table.

**Table 4.20 Trends of medical facilities of respondents**

<b>Access to medical facilities had improved after program participation</b>	<b>No of cases</b>	<b>Percent (%)</b>
<b>Yes</b>	70	100
<b>No</b>	0	0

Source: survey data

The result of the survey summarized in table 4.20 proof that 70(100%) of sample respondents of the clients had reported that an increasing trend in their access to medical facilities. This indicates that the MFIs paved the way for its clients to attend medical facility.

**Table 4.21 Reason for the improvement of trend of medical facilities**

<b>The main reason for access to medical facilities was improved</b>	<b>No of cases</b>	<b>Percent (%)</b>
<b>1. Access to money from the microfinance Activities</b>	61	89.70
<b>2. Better local treatment</b>	0	0
<b>3. Sold household assets</b>	3	4.41
<b>4. Borrowed from other source</b>	0	0
<b>5. Others</b>	4	5.89
<b>Total</b>	68	100

Source: survey data

From the result of the survey compiled in table 4.21, it was also identified that from the sample clients who reported the improvement of the trend of their medical facilities, 61(87.14%) have agreed that the improvement of the access to medical facilities was due to access to money from loan able activities. We can conclude that the program participant had benefited from the micro financing scheme and the OCSSCO had positive impact on the improvement of medical facilities of its clients.

#### **4.2.7 Impact on Employment**

Having access to micro finance credit has also expected impact on the employment opportunities of the household of clients. Based on the assumption, information on the type of business activities and trends of employment opportunities were collected.

**Table 4.22 Major types of business activities they engaged after the Loan**

<b>The major types of activities the respondents engaged after program participation</b>	<b>No of cases</b>	<b>Percent (%)</b>
<b>Local drink preparation</b>	5	7
<b>Agricultural activities</b>	29	42
<b>Animal husbandry</b>	17	24
<b>Retail trade</b>	16	23
<b>Others</b>	3	4
<b>Total</b>	70	100

Source: survey data

**Table 4.23 Trends of income due to job opportunity**

<b>Income had improved due to improvement in job opportunities due to microfinance</b>	<b>No of cases</b>	<b>Percent (%)</b>
<b>Yes</b>	67	95.71
<b>No</b>	3	4.29
<b>Total</b>	70	100

Source: survey data



The result of the survey described on table 4.22 indicate that from the total sample respondents, 29(42%) of the clients reported that they were engaged on agriculture. The other 17(24%), 16(23%), 5(7%) and 3(4%) of the clients were engaged on Animal husbandry, retail trade, the business activities of local drink preparation, and other works respectively. These were the main business activities that sample respondents were engaged.

Respondents were also asked the trend of their employment opportunities and income improvement, whether there was improvement or not. Accordingly, the result on table 4.23 indicates that 67(95.71%) clients reported that their employment opportunities had shown improvement on their income. On the other hand, 3 (4.29%) of clients reported that the trend of their employment opportunities had not improved their income. It is possible to say that the Micro financing Scheme have positive impact on employment generation and improvement of income.

#### **4.2.8 Impacts on Savings**

There are two types of savings. Compulsory and voluntary saving compulsory saving is normally enforced and started immediately when the loan is approved for the program participants. On the other hand, compulsory saving includes compulsory group saving, compulsory center saving and compulsory individual savings. These kinds of saving are important in micro financing scheme since they are used as collateral. Compulsory saving is Birr 10 per month. The voluntary saving is an individual saving that is based on the willingness of the individual to save and with draw at any time when the need arises.

**Table 4.24 Trends of personal savings**

<b>Type of savings had the respondents made after program</b>	<b>No of cases</b>	<b>Percent (%)</b>
<b>Compulsory savings in MFI</b>	70	100
<b>Voluntary savings in MFI</b>	9	13
<b>Saving and credit association</b>		
<b>Iqqub</b>	10	14
<b>Other</b>		

Source: survey data

**Table 2.25 purpose of saving of the sample respondents**

<b>Purpose of saving of respondents</b>	<b>No of cases</b>	<b>Percent (%)</b>
<b>To earn interest income</b>	2	2.86
<b>Loan repayment</b>	22	31.43
<b>For safety purpose from theft or damage)</b>	1	1.43
<b>To expand your business</b>	45	64.28
<b>Other</b>		
<b>Total</b>	70	100

Source: survey data

The result of the survey conducted on saving situation of the sample clients indicated in table 4.24 , 70(100%) of the clients reported that the type of saving the clients are using in the scheme was compulsory saving, the remaining 9(13%) and 10(14%) voluntary saving in MFI and local institution (Iqub) respectively.

The purpose of saving reported in table 4.25 indicated that 45(64. 28%) of the clients save to expand their business, 22(31.43%) for repayment purpose and the remaining for interest earning and safety purpose.

#### **4.2.9 Impact on Empowerment**

Apart from economic and socio-cultural impacts, micro finance intervention is believed to boost the borrower's sense of self-esteem. In recent years, much attention has gone to describing how micro finance might lead to increased empowerment of the borrower. In many cases, the focus is on women borrowers and changes in their status within the household and the community.

In this research, participation in a micro finance program is expected to have positive impacts on empowerment of the individuals who receive and use the micro finance services particularly female clients. This study also tried to assess the gender dimension with in the household. That is the assessment was made in order to evaluate patterns of decision making and what happens to the role of the married women with husband and the alone women in the house hold and business activities as they become member of micro finance program.

As we have seen above, empowerment of women is one important dimension of well fare improvement. Since OCSSCO has this as one of its prime concern, it is therefore very fundamental to raise the issue of women empowerment as result of the credit provision. With this in mind, however, examining whether women really invested the loan they have taken in activities that they found appropriate so as to improve their living standard needs closer attention. The trend of the decision making of the respondents was indicated as follows.

**Table 2.26 Decision making in the household**

<b>Decision making to take loan and use loan in the house hold of respondents</b>	<b>No of cases</b>	<b>Percent (%)</b>
<b>Husband only</b>		
<b>Wife only</b>	27	38.57
<b>Husband with wife</b>	43	61.43
<b>Total</b>	70	100

Source: survey data

As we had seen in table 2,26 above women were most females decided to take the loan alone and jointly with their partners. Participation in micro finance program expected to help to control over resources in the part of women clients. Information who makes decisions regarding the decisions about taking loan and using loan was collected. Out of total sample respondents of clients 43(61.43%) made decision about taking and using the loan the husband together with the wife, and 27(38.57%) wife only made decision regarding to take and use loan. In here out of the husbands no one was making decision alone. On the other hand even from the partners 8 wives decided alone on credit issues. From this result, we are safe to say that women were actually making use of the loan they have taken to improve their own and their families' living standard. Therefore, it is possible to suggest the impact of credit of micro financing scheme on woman empowerment due to the result show that both married and the others fully participate on decision making concerning loan.

### 4.3 General View of the Respondents

**Table 2.27 General Information of Respondents**

<b>The clients had benefited from the credit scheme of OCSSCO (their response)</b>	<b>No of cases</b>	<b>Percent (%)</b>
<b>Yes</b>	68	97.15
<b>No</b>	2	2.85
	70	100

Source: survey data

**Table 2.28 Major operational problems of OCSSCO**

<b>Major problems faced by the respondents</b>	<b>No of cases</b>	<b>Percent (%)</b>
<b>lack of business knowledge</b>	14	20
<b>shortage of working capital</b>	23	32.85
<b>lack of market for output</b>	4	5.73
<b>lack of knowledge of using the loan</b>	8	11.43
<b>Bad weather condition</b>	19	27.14
<b>loss or damage</b>	2	2.85
<b>Others</b>		
	70	100

Source: survey data

The sample clients were asked to respond whether they were benefited or not from the Microfinance Institution (OCSSCO). According to their response summarized in table 2.27, out of the total respondents 68(97.15) reported that they were benefited from OCSSCO, but only 2(2.85%) reported that they were not benefited from the scheme.

On the other hand respondents were asked their main operational problems since they had become the beneficiary of micro financing scheme. According to the result indicated on table 2.28, out of the sample respondents 23(32.85%) reported that lack of or shortage of working capital. 19(27.14%) of the sample respondents indicated that during their stay in loan bad weather condition was the main problem. 4(5.73%) reported absence (lack) of market for their output was the main operational problem, and the other 14(20%) Of the clients reported that lack of business know ledge was the main operational problem and so on.

#### **4.4 Focus Group Discussion**

The perception of clients in the program as it was explained in the methodology part of this research, there was focus group discussions made with sample respondents. Based on this group discussion, an attempt was made to know the perception of sample respondents with the OCSSCO's micro financing scheme in the study area. From this discussion, information was gathered in relating with the benefits, the sample respondents obtained from the program, any kinds of weakness that needs attentions about the program and their recommendations to show the direction of improvement about MFIs services. Accordingly, the perceptions of clients concerning the benefits they gained from the program participations on improvements on house hold income, house hold consumption status, and access to employment opportunity, access to medical facilities, educational facilities and savings are identified. From the discussion, it was identified that 90% of sample respondents reported that participating in micro finance program would serve a useful purpose in increasing income of households and wealth (assets) accumulation, clients have developed the habit of saving help them to expand their business to offset any possible future loss, for loan repayment, urgent need to cover an expense of education, medical expenditure, to purchase house hold equipments, and for contingency. Most of the sample respondents have agreed with the time of loan disbursement, voluntary individual saving of the program, group compulsory saving, center compulsory saving, and supervision monthly center meeting and appropriate time of loan disbursement, and loan repayment. During the discussions, respondents replied that in spite of the benefit of the credit provision in improving the income of their house hold, the size of the loan the institution have allowed is too small.

This, according to them, limited their capacities so they are forced to engage in activities that asked them little effort and provided them with quick return over that would enable them pay their debt timely. In addition, they went on to explain that small loans discourages even those poor people whose credit requirements higher than the maximum amount of money that could be permitted by the institution. During the focus group discussion also most of the clients argued, that in spite of the fact that they have a capacity to borrow a loan amount more than the maximum amount that is allowed to borrow the institution does not permit to borrow larger amount. Moreover they complained for the interest rate that they pay for the loan is high. They have agreed that group lending approach is important to clients that cannot provide collateral for credit, but all of the respondents are not interested in this lending approach. They replied that despite the fact that their group members, especially those who are not in a position to settle their debts when illness or death are assisted, but they are people who commit default intentionally or fail to repay loans, place a financial burden up on their group members, where by all members of the group would be forced to share the cost.

## **Chapter V Conclusion and Recommendations**

### **5.1 Conclusions**

Providing the poor access to credit is one of the various instruments in order to reduce poverty. Since formal financial institutions failed to reach the poor for collateral requirements, micro finance program is being practiced all over the world as one of the major strategies being used to reduce poverty through the delivery of financial services such as credit saving, insurance, etc. Micro finance institutions have established in Ethiopia after the issuance of proclamation No 40/1996. Many microfinance institutions registered by the National Bank of Ethiopia (NBE) and started delivering services. Today, provision of credit and saving mobilization is thought of as an avenue for development. Based on this line, OCSSCO was established in 1997 in Oromia Regional state with the objective to reduce poverty and promote economic development through the provision of credit and saving services. The main objective of this study is to assess the impact of OCSSCO's program whether it has improved the living standard of the poor women. The impact assessment was conducted in Shirka Woreda sub-branch of OCSSCO in Arsi Zone of Oromia regional state.

The few impact assessment studies conducted in Ethiopia showed that the intervention of micro finance has positive impacts on improving the living standard of the poor and ultimately reduce poverty. But there are studies that indicate Pessimistic kind of result on the impacts of micro finance towards reducing poverty.

Based on this assumption, it was hypothesized that participating in micro finance programs improves: the level of income, food security of their house hold members, their assets and enables the poor to have access to school and medical facilities and empower them. Data were collected from the sample respondents of women clients. The questionnaire includes household demographic characteristics, socio-economic impacts, perception of respondents about the program and their suggestions. The assessments were focused on the impact of MFI at household level, which mainly associated with the changes in the living condition of the individual clients.

The analysis of the assessment at the house hold level were by using descriptive analysis based on variables such as income, house hold consumption, employment opportunities, saving, access to education, and medical facilities and women empowerment. The assumption of micro finance intervention is that the provision of financial services to the women improves the living condition and economic situation of its clients. Based on this assumption, the findings of the study made on the intervention of micro finance in the study area would be summarized as follows.

In the study area, most of the sample respondents were found to register an increasing trend in their income for the last two years. 63 (90%) of sample respondents the trend of their income has shown increasing for the last two years. Improvement of their ability to purchase in put due to access ability of credit was the main factors for the increasing trends income for clients.

As far as food consumption is concerned, there was a significant difference, after the loan on the average approximate monthly consumption of clients. The change was birr 221.5) which showed a significant change in consumption.

Regarding to the housing situation, the survey result indicated that 55(78.57%) of the clients made improvement and repairs their housing during the last two years. In addition to this when respondents were asked the source of income to improve their houses, 29(52.73%) of the sample clients, indicated that due to income from loan able activities. The survey result also indicated that the employment opportunities of the clients were improved during the last two years.

The study also indicated the positive impact of the micro finance on the improvement of medical facilities of program participants .The findings of this study showed that almost all 70(100%) clients have shown improvement of the medical facilities of their households during the last years. Accordingly, the main factor for the improvement of their medical facilities was access to money from loan able activities.

Concerning saving, almost all clients did not have saving account before they had participated on the micro finance program, but after they become the member of OCSSCO they became the beneficiary of compulsory saving and some started save voluntarily. Moreover some improve their capital through saving in traditional institution, for example Iqub from the income obtained from loan activities.



The result of the findings also indicated the intervention of the micro finance in the study area had a positive impact on the educational facilities of the household of clients. Moreover women's autonomy in household decision-making has shown a great improvement after the loan. Those women with husbands the majority made decision on loan issues with their husbands and some women unfortunately made decision alone. Therefore this indicate that the intervention of the micro finance in the study area have positive impact on empowerment of women.

Most of the respondents have appreciated the appropriate time of loan disbursement and appropriate time of repayment. Center meeting created a chance for clients to make contact and to exchange their experiences and share their problem. But in group-based approach, clients claimed that some clients intentionally failed to repay their debts so that it becomes the financial burden on the other group members. Others also claimed that the loan was not sufficient for their projects.

This study indicates that more than 90% of clients agreed that the intervention of the micro financing scheme in the area improved their living standard of their households. But some clients reported that lack of knowledge, lack of capital and illiteracy were the main problems in the use of loan.

Lack of sufficient financial resource to fulfill office working materials like computers and other materials, absence of sufficient infra structures especially in the rural areas and illness or death of its clients to recollect the loan were some of the main problems identified from the discussion made with the official and staff of OCSSCO

## **5.2 Recommendations**

As a policy indicator, the intervention of micro finance is expected to improve the living standard of the poor and reduce poverty. As such it improves the economic status of the society and country as a whole.

From its initial establishment OCSSCO is expected to reduce poverty and promote the economic development through the provision of credit and saving services. Based on the findings of this study, OCSSCO has attained the target of improving the living condition of its clients in relation to income, employment opportunities, consumption status, and education and health facilities.

According to the respondents in the impact study on education the majority of the dropouts were those who migrate to foreign countries and domestic towns in search of jobs. This needs a policy as well as immediate measure to reverse the situation.

It was clearly found out that the majority of the sample respondents were illiterate, and some had problem of knowhow in the use of loan. A great attention should be given to improve the educational level and basic knowledge in the use of credit.

As most of the clients suggested that the loan was not sufficient to run their projects. Therefore, OCSSCO ought to make an effort to increase the size of loan for its clients in relation to the business size and type of activities.

Moreover, clients also indicated that the interest rate is not fair, especially, when they compare it with interest rate on saving (5%) with the lending interest rate (15%). They said it discourages saving in the institutions.

The finding of research also indicated that there were the diversification of business activities, almost 42% and 58% of the loans were disbursed for agricultural activities and different business activities respectively, but the size of the loan the institution allows is very limited. This, according to the respondents, limited their capacity to engage in activities required high initial capital. As a result, they were simply engaged on activities that give them immediate return and would enable them to repay their credit.

Therefore, OCSSCO must make an effort to strengthen its financial capacity in order to increase the amount of loan it disburses for each client. Moreover it should call NGO, investor and government for additional source of funds to reach out the remote and the poorest segment of society.

As far as facilities concerned the OCSSCO should have to give attention in fulfilling official materials like computers, transport and other requirements to facilitate the loan. Moreover this study can be used as input for the researcher and policy makers.

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## APPENDICES

### I. Questionnaires

This questionnaire is prepared only for academic purpose for the fulfillment of master of Arts in rural development (Indira Gandhi National Open University, School of continuing Education) on the title “Impact Assessment of the Microfinance Institutions on the living condition of rural women, the case of Oromia redit and Save Share Company (OCSSCO) in Shirka woreda, Oromia Regional State by Mesele Mekuria which can be used as development tool which gives the opportunity for rural women to improve their living condition, so you are kindly requested to give genuine answers, thank you.

Name of interviewer \_\_\_\_\_

Date of the interview \_\_\_\_\_

#### 1. Personal information of the Respondent

(Please make a ‘√’ mark in the Dash provided in front of the Question)

1.1 Name: \_\_\_\_\_

1.2 Sex: 1. Male \_\_\_\_\_ 2. Female \_\_\_\_\_ 1.3 Age \_\_\_\_ 1.4 Marital Status:  
1. Single \_\_\_\_\_ 2. Divorced \_\_\_\_\_ 3. Married \_\_\_\_\_ 4. Widow \_\_\_\_\_ 5. Others if any \_\_\_\_

—

1.5 Educational level

1. Non-literate \_\_\_\_\_ 2. Grade 1-4 complete \_\_\_\_\_ 3. Grade 5-8 complete  
\_\_\_\_\_ 4. Grade 9-12 complete \_\_\_\_\_ 5. Above grade 12 \_\_\_\_\_

If it is above grade 12, specify the qualification: \_\_\_\_\_

1.6 Number of dependents within the household

1. Before the loan \_\_\_\_\_ 2. After the loan \_\_\_\_\_

1.7 Are you the head of the household? YES \_\_\_\_\_ NO \_\_\_\_\_

#### 2. Loan and Loan Repayment

2.1 Did you have previous access to credit from other formal or informal financial Institutions?

1. Yes \_\_\_\_\_ 2. No \_\_\_\_\_

2.2 If Yes, When? \_\_\_\_\_ Amount of loan in birr \_\_\_\_\_



- 2.2.1 Purpose of loan \_\_\_\_\_
- 2.2.2 In how many months was the total loan wanted to be fully repaid?  
\_\_\_\_\_
- 2.2.3 Have you completed repayment of the loan? 1.Yes \_\_\_\_\_ 2.No  
\_\_\_\_\_
- 2.2.4 If your answer for Q. No 2.2.3 is No, Explain your reason and amount.  
Reason \_\_\_\_\_ Amount of outstanding Birr  
\_\_\_\_\_
- 2.3 Are you a customer of OCSSCO? 1, Yes \_\_\_\_\_ 2, No \_\_\_\_\_
- 2.4 If your answer for Q 2.3 is yes, when did you start as customer? Year (in  
Ethiopian calendar) \_\_\_\_\_
- 2.5 How many times have you taken loan since then? \_\_\_\_\_
- 2.6 What was the amount of the first loan? \_\_\_\_\_ Birr
- 2.7 What is the amount of your current loan? \_\_\_\_\_ Birr
- 2.8 Would you tell us the amount of credit you have taken from OCSSCO?  
1st round \_\_\_\_\_ Birr 5th round \_\_\_\_\_ Birr  
2nd round \_\_\_\_\_ -Birr 6th round \_\_\_\_\_ Birr  
3rd round \_\_\_\_\_ Birr 7th round \_\_\_\_\_ Birr  
4th round \_\_\_\_\_ Birr 8th round \_\_\_\_\_ Birr
- 2.9 Do you think that the loan is sufficient to run your project?  
1, Yes \_\_\_\_\_ 2, No \_\_\_\_\_
- 2.10 If your answer to Q.2.9 is No, how much do you propose that is sufficient to run  
your project? \_\_\_\_\_ Birr
- 2.11 What is the interest rate of the loan? \_\_\_\_\_ Per cent
- 2.12 Do you think that the interest rate on loan is fair? 1.Yes \_\_\_\_\_ 2.No  
\_\_\_\_\_
- 2.13 If you answer to Q.2.12 is 'No, 'would you tell us the appropriate interest rate?  
\_\_\_\_\_ Percent

### 3. Information about source of income

- 3.1 Did you have a source of income for your household before the loan? 1, Yes \_\_\_\_  
2.No \_\_\_\_\_
- 3.2 If your answer to Q.3.1 is yes, explain the source and the amount of your income  
Source of income \_\_\_\_\_ Amount of monthly income  
\_\_\_\_\_ Birr
- 3.3 During the last two years did your over all household income 1. Increase----- 2.  
Remains the same----- 3. Decrease \_\_\_\_\_
- 3.4 How did your income increase? (If increased)  
1. Good agricultural season 2. Expand existing business 3. Able to purchase  
input due to accessibility of credit 4. Got jobs 5. Others (specify)
- 3.5 How did your income remain constant or decrease? (If remain constant and  
decrease)  
1. Illness or death of one or more of your family member 2. Unable to get  
inputs due to lack of credit 3. Crop failure 4. Family member lost jobs 5.  
Others (specify) \_\_\_\_\_

### 4. Consumption and Nutritional Status

- 4.1 What was the approximate monthly consumption expenditure of your household  
before program participation Birr \_\_\_\_\_
- 4.2 What is the approximate monthly consumption expenditure of your household  
after program participation? Birr \_\_\_\_\_
- 4.3 Does the number or types of your meals for the last two years have  
1. Improved \_\_\_\_\_ 2. Remained the same \_\_\_\_\_ 3. Decreased \_\_\_\_\_
- 4.4 If your answer to Q.4.3 is improved, how has it improved?  
1. Able to buy more cereals such as teff, maize, etc  
2. Able to buy vegetables and fruits  
3. Able to buy dairy products milk, meat, cheese, egg, etc.  
4. Able to eat suitable foods like pasta macaroni etc.  
5. Able to eat three times (meal) a day  
6. Others (specify)

4.5 Do you think that this improvement of consumption expenditure of your household is associated (related) with a rise in income from business financed by the loan? 1. Yes \_\_\_ 2. No \_\_\_\_\_

4.6 If your household diet has not been improved after program participation? What are your major reasons?

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

**5. Information about the household assets**

5.1 What type of house did you have before program participation?

1. Roof with iron sheet

2. Roof with grass

3. Others (specify)

5.2 Did you improve your house after program participation? 1.Yes \_\_\_\_\_2. No \_\_\_\_\_

5.3 If your answer is yes, due to; 1. Access to credit 2.Gifts or Aids 3. Improved income 4. Others (specify)-----

5.4 If your answer for Q.5.2 is No, what are the reasons?

1. \_\_\_\_\_

2. \_\_\_\_\_

5.5. What are the types, numbers and estimated value of the assets you purchased after program participation?

**Type Total value in birr**

1. Chairs \_\_\_\_\_

2. Tables \_\_\_\_\_

3. Beds \_\_\_\_\_

4. Radio / Tape Recorder \_\_\_\_\_

5. Stove \_\_\_\_\_

6. TV \_\_\_\_\_

7. Refrigerator \_\_\_\_\_

8. Others (specify) \_\_\_\_\_

5.6 Did your purchasing power to buy assets was improved after program participation? If your answer is 'Yes', how? \_\_\_\_\_

- 1, Due to increase in income from microfinance activities
- 2, Due to increase in income from non-microfinance activities
- 3, Gifts or aids
- 4, Good agricultural season
- 5, Others (specify)

If your answer is No, Why?

- 1, Lack of credit
- 2, Failure of agricultural products
- 3, Market problem
- 4, Lack of working capital
- 5, Others (specify)

5.7. Do you have livestock? Yes \_\_\_\_\_ No \_\_\_\_\_

If yes, list their type, number and average price per animal

**Type No Average price in Birr**

- |                 |                      |
|-----------------|----------------------|
| 1. Oxen _____   | 6. Horses _____      |
| 2. Cows _____   | 7. Mule _____        |
| 3. Calves _____ | 8. Donkey _____      |
| 4. Sheep _____  | 9. Chickens _____    |
| 5. Goat _____   | 10. Others (specify) |

5.8. Did the number of your livestock after program participation

- 1, Increased
- 2, Remained the same
- 3 decreased

5.9 If your answer is increased, how? \_\_\_\_\_

5.10 If your answer is, decreased and remained the same, why? \_\_\_\_\_

## **6. Information about Access to Education**

6.1 If you have children of school-going age, how many of them have been attending school before program participation? \_\_\_\_\_

6.2 Did the number of your children attending school after program participation 1.

1. Increased
2. Remained constant
3. Decreased

6.3 If increased, how?

1. Income improvement
2. Access to new school building
3. Increase in the awareness of household towards education
4. Others (specify) \_\_\_\_\_

6.4 If decreased or remained constant, why?

1. Lack of income for payment of school tuition fee
2. Lack of access to education in area
3. Lack of interest to attend school
4. Others (specify) \_\_\_\_\_

6.5 If there are school age children, and currently don't attend school, what is the reason?

1. They are required to assist in the business activities
2. They are required to assist in non – business activities
3. Disabled
4. Don't want to learn
5. Others (specify) \_\_\_\_\_

## **7. Access to Medical Facilities and Expenditure**

7.1 Did your family and yourself have access to medical facilities before program participation?

1. Yes \_\_\_\_\_
2. No \_\_\_\_\_

7.2 If your answer to Q.7.1 is yes, who was the bearer of medical expenditure?

1. Yourself
2. Other family members
3. Relatives
4. Free medical service user

7.3. What is the average annual household medical expenditure after program participation? \_\_\_\_\_ Birr

7.4 Do you think that your access to medical facilities has improved after program participation?

1. Yes \_\_\_\_\_ 2. No \_\_\_\_\_

7.5 If your answer to Q.7.3 is 'yes', what is the main reason?

1. Access to money from the microfinance activities

2. Better local treatment \_\_\_\_\_

3. Sold household assets \_\_\_\_\_

4. Borrowed from other sources \_\_\_\_\_

5. Others (specify) \_\_\_\_\_

## **8. Information on Employment and Business**

8.1. What were the major types of activities you engaged after program participation?

1. Local drink preparation

6. Beauty salon

2. Selling "injera "

7. Agricultural activities

3. Wood or metal work

8. Animal husbandry

4. Textiles

9. Retail trade

5. Shoe polish or repair

10. Others (specify) \_\_\_\_\_

8.2. Do you think that your income has improved due to improvement in job opportunities due to microfinance?

1. Yes \_\_\_\_\_ 2. No \_\_\_\_\_

8.3. Have you used hired labor in your business or farm activities ? 1. Yes \_\_\_\_\_ 2. No \_\_\_\_\_

8.4. If your answer to Q 8.6 is yes, how many? \_\_\_\_\_

Is it for temporary or permanent? \_\_\_\_\_ and for which activities? \_\_\_\_\_

## **9. Saving**

9.1 Did you have a personal saving account before program participation? 1. Yes \_\_\_\_\_ 2. No \_\_\_\_\_

9.2. If your answer for Q.9.1 is yes, specify the monthly saving amount Birr \_\_\_\_\_

9.3 Do you have a personal saving account after program participation?

1. Yes \_\_\_\_\_ 2. No \_\_\_\_\_

9.4 If your answer for Q9.3 is yes,

1. What type of savings have you made and where?

i Compulsory savings in MFI iv Iqqub

ii Voluntary savings in MFI v Iddir

iii Saving and credit association vi Others ( specify )

2. Specify the average monthly saving amount in Birr \_\_\_\_\_

9.5 What is your source of money for saving?

i. Business /farm profit financed by the loan

ii. Borrowed from money lenders and friends /relatives

iii. Others (specify) \_\_\_\_\_

9.6 To what purpose did you save?

i. To earn interest income

ii. Loan repayment

iii. To expand your business

iv. For safety purpose (from theft or damage)

v. Others (specify)

## **10. Empowerment**

10.1 Who makes decision to take loan and use loan in your house hold

1. Husband only

2. Wife only

3. Husband with wife

4. Others (specify)

10.2 Who makes decision to buy in puts and sell agricultural and Business products?

1.Husband only

2.Wife only

3.Husband with wife

**11. Other Information**

11.1. Do you think that you have benefited from the credit scheme of OCSSCO? 1.

Yes \_\_\_\_\_ 2. No \_\_\_\_\_

11.2.If your answer to Q 11.1 is No, why?\_\_\_\_\_

11.3. During your OCSSCO loan program participation period what are your major

Operational problems?

1, lack of business knowledge

2, shortage of working capital (land)

3, lack of market for output

4, lack of knowledge of using the loan

5, loss or damage

6. weather condition

7, others (specify) \_\_\_\_\_

12.4. What is your overall opinion about the credit scheme of OCSSCO?

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## **II. Check List for Focus Group and Officials**

### **2.1 Focus Group Discussion**

1. How many members does your group have?
2. How do you become the OCSSCO's program beneficiaries?
3. What are the issues you have discussed at the center meeting?
4. Do you think that there is a change in income and well being of your household since you have been loan beneficiary of OCSSCO's ?
5. Have you agreed that there is any support mechanism among group members?
6. Have you had any support in the form of training or consultancies from OCSSCO's for your activities?
7. What problems you have encountered since you have become program OCSSCO's beneficiaries?

### **2.2 Questions for the official and employees of the sub branch**

1. How do you identify the poor to be the program beneficiaries of your institutions?
2. Do you think that the loan is sufficient for your client to run their projects?
3. Do they use the loan for the intended purpose?
4. Do you think actually the beneficiaries benefited from the loan?
5. Can you tell us the major impacts of (positive or negative) the MFIs(OCSSC) on the living condition of the women?